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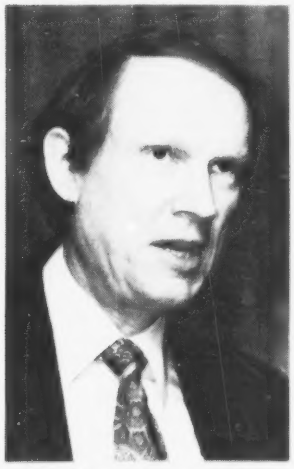
Economy of Former U.S.S.R. Continues to Deteriorate

The economy of the former Soviet Union is in crisis, according to John Odling-Smee, Director of the newly created department in the IMF dealing with the former U.S.S.R. (now the Commonwealth of Independent States), and the situation continues to deteriorate. Net material product was down 12 percent in the first nine months of 1991, compared with the same period the previous year, while industrial production was down 6 percent. Although these are the official numbers, Odling-Smee claims that "it is a little difficult to square these figures with one's impression of a greater decline. On the other hand, one might expect the figures to underestimate the level of output because of the growth of activity outside the official sector."



Odling-Smee: the budget has been squeezed from both sides.

Speaking at an IMF Visitors' Center Economic Forum seminar on December 5, Odling-Smee said that balancing the impression of economic decline against the likelihood of a rise in unofficial activity makes it difficult "to know exactly what is going on." But some things are easier to measure, he pointed out. For example, crude oil production was down about 10 percent in the first nine months of 1991, compared with the same period the previous year, a significant decline given oil's importance as an export commodity. Inflation is rising, but it is difficult to determine by how much because so much is suppressed. "Almost certainly," said Odling-Smee, "real inflation is quite a bit more than the doubling of prices that took place in the first nine months of this year."

The budget deficit of the former Soviet Union is very large, according to Odling-Smee. The consolidated government deficit was over 15 percent of GDP in 1991, having been on the order of 9 percent the previous year. Revenues have fallen because of the declining tax base, and expenditures have increased. "So the budget has been squeezed from both sides," said Odling-Smee. *(Please turn to page 7)*

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SELECTED TOPICS

European Leaders Agree to Treaty on Monetary Union

The European Community (EC) heads of state and government, meeting in Maastricht in the Netherlands, agreed on December 10, 1991, upon a treaty that provides the legal and political framework for a European monetary union. This agreement is one part of a larger process of European economic and political integration. The treaty, which still needs to be ratified by the parliaments of the EC member states, envisages a three-stage approach to monetary union. The three stages are patterned on those proposed by the Delors report in 1989 and adopted by the Intergovernmental Conference on Economic and Monetary Union held in Rome in December 1990.

During the first two stages, member states are to work toward convergence of economic performance, as measured by four criteria: inflation differentials, exchange rate stability, interest rate differentials, and sustainable fiscal deficits and debt. In stage one, these efforts will consist mainly of policy changes undertaken at the initiative of individual member states and of improved policy coordination. In stage two, EC surveillance of progress toward meeting these criteria will be intensified. Finally, in stage three, member states that meet the specified economic conditions will irrevocably fix their exchange rates and form a monetary union. If a majority of member states fulfills the necessary conditions in 1996, stage three could begin in 1997. Otherwise, stage three would begin on January 1, 1999.

The economic conditions to be met for participation in the monetary union are stringent: a member state's consumer price inflation in the year before examination by the EC must not exceed by more than 1½ percentage points the inflation rates of the three best-performing member states; long-term interest rates must not be more than 2 percentage points above those in the three member states with the lowest inflation; the exchange rate must have been held for two years within the narrow band of fluctuation of the Exchange Rate Mechanism of the European Monetary System (EMS) without a devaluation at the member state's own initiative; the general government deficit, that is, the consolidated deficit of the central, state, and local governments and the social security funds, must not surpass 3 percent of GDP; and the ratio of public debt to GDP should be no higher than 60 percent.

The economic conditions for participation in the monetary union are stringent.

The EC Council of Ministers would have some discretion in deciding whether member states had made enough progress in meeting the necessary conditions for the adoption of a common currency. The Council would also take account of other indicators of economic performance, such as unit labor costs, the current account of the balance of payments, and the integration of markets.

From the beginning of stage two on January 1, 1994, member states will be expected to implement multiannual programs to enable them to meet the convergence criteria. A procedure for monitoring public sector deficits and debt will back up the fiscal criteria, and member states found to be making insufficient progress may receive policy recommendations from the Council of Ministers. Member states will also be required to make changes in their national central banking and financial market legislation. With few exceptions, all remaining restrictions on the movement of capital will be eliminated. Central bank credit to the public sector and preferential access to financial markets for public sector institutions will end. Individual states and the Community will not assume the public sector financial commitments of any member state.

On the institutional side, the Committee of Central Bank Governors and the European Monetary Cooperation Fund (EMCF) will be replaced by the European Monetary Institute (EMI), which will consist of the national central bank governors and a president appointed by the heads of state and government. Its principal functions will be to take over the tasks of the EMCF, strengthen cooperation among

central banks, monitor developments in the EMS, and lay the technical groundwork for the establishment of the European System of Central Banks (ESCB). The EMI may also manage foreign exchange reserves as an agent for national central banks. It will have no authority over monetary policy, although it may formulate and publish opinions and recommendations.

A first decision on the transition to stage three will come in 1996. By the end of that year, a summit meeting of the heads of state and government will establish, by qualified majority voting, whether a majority of the member states fulfills the necessary conditions for the adoption of a single currency and whether it is appropriate for the EC to enter the third stage. If so, the summit will set the date for the beginning of stage three. The ESCB will be established as soon as the date for the beginning of stage three has been set. Those member states that are judged ready to participate in the monetary union will transfer authority over monetary and exchange rate policy to the ESCB.

Before they enter into stage three, these states will also be required to make their national central banks independent of government direction. States that are not ready to adopt the common currency may obtain an exemption from the treaty from the Council of Ministers and join when they satisfy the necessary economic conditions. States so exempted will not be represented in the decision-making bodies of the European Central Bank (ECB). Exemptions for countries will be decided at the EC summits that are to precede the transition to stage three.

If a date for the beginning of stage three has not been set by the end of 1997, stage three will begin on January 1, 1999. Before the middle of 1998, an EC summit will decide which member states satisfy the necessary conditions for adopting a common currency. These states will then form a monetary union. Other states may obtain exemption and join whenever they satisfy the economic criteria.

EC leaders in Maastricht: monetary union will take place in three stages.

The treaty states that the transition to stage three will be irreversible and will take place on a fixed timetable. Special provisions apply to Denmark and the United Kingdom. Denmark reserves the right to submit its participation in stage three to a referendum, and the United Kingdom to a vote of its Parliament.

The treaty details the principal characteristics of the monetary union to be formed in stage three. It states explicitly that price stability will be the overriding goal of monetary policy. Although monetary policy will be expected to support the general economic policy of the EC, it must not do so at the expense of price stability.

The treaty envisages the establishment of an ESCB that would be entirely independent of government directives. The ESCB would consist of the national central banks and the ECB. The ECB would have a governing council, consisting of an executive board and of the governors of the national central banks. The executive board, which would include the president and vice president of the ECB, might have as many as six members, each serving a single eight-year term. The governors of the national central banks would be named for terms of at least five years.

In addition to the governing council, a general council would be established to represent all central bank governors of the EC member states, including member states that have not adopted the common currency. This council would have no authority to decide on monetary policy. Neither the ECB nor the national central banks will be permitted to provide credit to the public sector or to purchase its debt directly. The ESCB may, by decisions of the Council of Ministers, also be involved in the prudential supervision of financial institutions.

Fiscal discipline in stage three will be reinforced for those states that have adopted a common currency, in order to avoid large fiscal imbalances that might imperil the cohesion of the monetary union. Also in stage three,

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governments will be required to avoid excessive fiscal deficits, whereas in stage two they must only "endeavor" to avoid them. Like the criteria used to judge convergence, the general government deficit will not be allowed to surpass a reference value of 3 percent of GDP, nor the public debt to exceed 60 percent of GDP. States not meeting these requirements may be asked by the Council to take measures, within a specified time limit, to remedy the situation.

The treaty also provides for the imposition of sanctions on members that do not comply with the limits on deficits and debt. The sanctions, in increasing order of severity, would be:

- the publication of additional information in connection with the issuance of public debt by the member state in question;
- a reconsideration of lending to the member by the European Investment Bank;
- the placement of a non-interest-bearing deposit with the Community by the member until the excessive deficit or debt had been corrected; and
- fines of an appropriate size. However, the imposition of sanctions would be left to the discretion of the Council of Ministers.

It is intended that the responsibility for exchange rate policy will be divided between the Council of Ministers and the ESCB. The Council, acting unanimously and after consultation with the ESCB, will be able to conclude formal agreements on the exchange rate system and formulate general orientation for exchange rate policy, provided this does not contravene the goal of price stability. The day-to-day management of foreign exchange reserves and foreign exchange intervention will be the exclusive province of the ESCB.

Karl Habermeier
IMF, European Department

Use of Trinidad Terms Will Lead to More Sustainable Debt Levels: World Bank

Debt relief for low-income countries along the lines suggested by the Trinidad terms (an approximately two-thirds reduction in the stock of debt) would enable many such countries to service their debts on a more sustainable basis, according to the 1991–92 *World Debt Tables*, published by the World Bank.

The first volume of the *Tables*, which is a report on major developments in world debt during the past year, suggests that although official debt relief "cannot substitute for stabilization and structural reform," it can indirectly contribute to the reform process. The report also notes that, following the Brady initiative (which opened the way for officially supported debt reduction), five middle-income countries have completed debt-reduction operations, and three such countries have regained access to private capital markets; and that, although it is facing a liquidity crunch, the former Soviet Union is not severely indebted on the basis of standard debt indicators.

Overall Debt Picture

On the whole, the debt burden of developing countries will not change much in 1991, according to the report, which suggests a continuing leveling off in the growth of debt since 1987. The stock of debt at the end of 1991 is projected to remain at the year-earlier level of $1.3 billion. Net lending flows of $38 billion will be fully offset by the effects of debt conversion, debt relief, payments of arrears, and exchange rate valuation changes.

The main debt indicators for developing countries are also projected to change little in 1991. The debt-to-export ratio is projected at 176 percent—the same as in 1990; the debt-to-GNP ratio at 38 percent, down from 42 percent in 1990; and the debt-service ratio at 20 percent, compared with 21 percent in 1990.

Aggregate net resource flows are projected to rise in nominal terms in 1991 to $84.9 billion (compared with $81.5 billion in 1990), but to decline slightly in real terms. The most notable features of such flows in 1991, according to the report, are a rise of some 14 percent in official loans, continued high levels of foreign direct investment, and a surge (from a low base) in portfolio flows.

The report points out that this composition suggests a continuing shift, since the early 1980s, from private to official flows and from debt to equity flows. Of total net flows, private flows now account for only about 10 percent, compared with about 50 percent a decade ago; net official flows account for about 60 percent, compared with about one third in 1981; and foreign direct investment accounts for about 30 percent, compared with 13 percent ten years ago.

The main features of projected net flows by region are significant increases in 1991 over 1990 to North Africa, the Middle East, and South Asia, and a continuance of nondebt flows to Latin America.

The report projects that net transfers (net resource flows less interest payments and profit remittances) to developing countries will decline to

about $11.5 billion in 1991, from $16.0 billion in 1990. The regional pattern of net transfers is projected to become more differentiated in 1991, however. Notably:

- Net outflows from Latin America will rise to $8.6 billion in 1991 (from $6.3 billion in 1990) because of interest payments related to the clearance of arrears;
- Net transfers to North Africa and the Middle East will rise to $2.5 billion in 1991 (from $1.9 billion in 1990), reflecting external borrowing and other financing following the Middle East crisis;
- Net outflows from Europe will rise (to $5.1 billion in 1991, from $3.6 billion in 1990), reflecting a sharp fall in foreign direct investment; and
- Net transfers will continue to be strongly positive to East and South Asia ($5.6 billion and $5.8 billion, respectively, in 1991) and to sub-Saharan Africa ($11.2 billion in 1991), reflecting strong official flows on concessional terms.

Low-Income Countries

The report suggests that the static level of aggregate debt masks the problems of severely indebted low-income countries (SILICs), which have witnessed a rising stock of debt with little or no improvement in debt ratios for the past several years. Although their higher debt reflects a welcome flow of official external support, the issue has arisen as to whether some of these countries can service existing debt burdens on a sustainable basis.

Despite receiving debt relief and pursuing reforms, SILICs have not yet been able to attain external viability, the report says, adding that those that have recently rescheduled their debt payments were able to meet only one half of their debt-servicing obligations in 1991.

The report notes that further official recognition of the need for additional debt relief on a case-by-case basis came at the London summit of the Group of 7 in July 1991, which urged the Paris Club to implement debt-relief measures for low-income countries that go beyond the "Toronto terms." An indication of the scale that such debt relief might take was indicated by the Trinidad terms, proposed in September 1990 by the then U.K. Chancellor of the Exchequer, John Major. Under these terms, there would be a one-time reduction in the stock of debt of approximately two thirds, with the precise amount being determined case by case. Illustrating the impact of Trinidad-terms-type debt reduction on each SILIC, the report concludes that the implementation of such debt reduction would enable many SILICs to put their debt servicing on a more sustainable footing.

Commercial Bank Debt

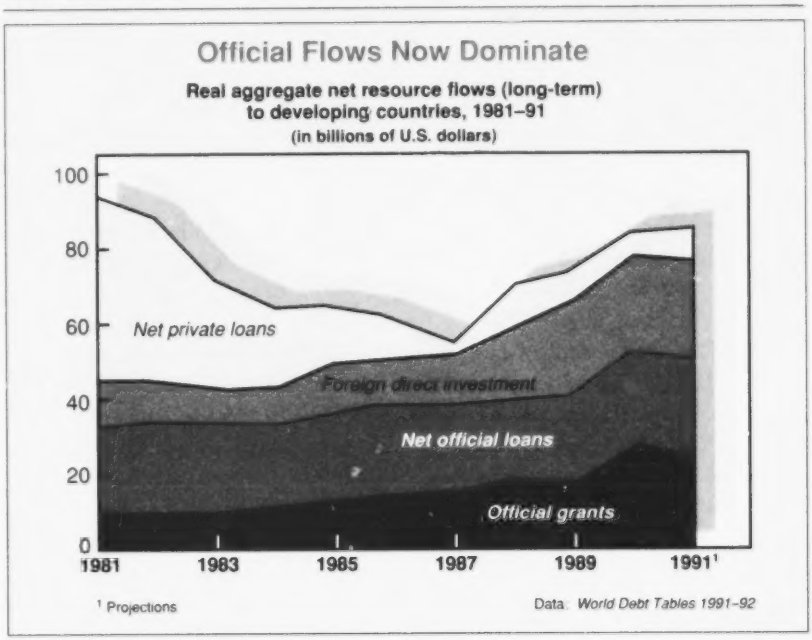
The report points out that since the announcement of the Brady Plan in 1989, five countries (Costa Rica, Mexico, the Philippines, Uruguay, and Venezuela) have completed commercial bank debt-reduction packages. As a result, these countries have effectively reduced their eligible commercial bank debt by one fourth, or about $20 billion. Three countries—Chile, Mexico, and Venezuela—have been able to emerge from commercial bank debt reduction with renewed access to international capital markets through both debt and investment flows.

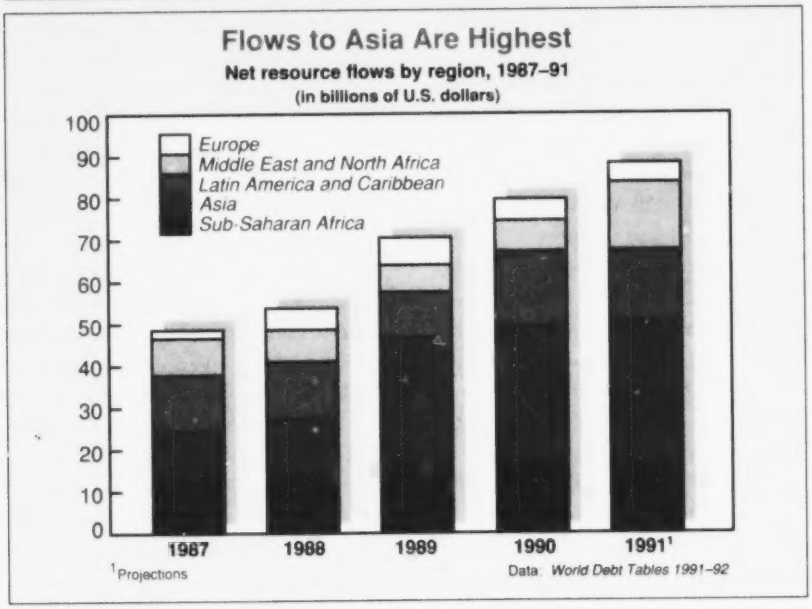
In sum, according to the report, the experience with the Brady initiative has been that

- official finance within a voluntary, market-based framework has helped support significant debt reduction, leading to improved domestic investor confidence; and
- a track record of reform is essential for successful debt reduction.

Former Eastern Bloc

Although the figures on its external convertible currency are uncertain, the





former Soviet Union is "no more than moderately indebted by international standards," according to the report, which projects the former U.S.S.R.'s debt at the end of 1991 to range from $57 billion to $71 billion, and its debt-to-export ratio to range from 135 percent to 166 percent.

The report tentatively projects for the former Soviet Union that, in 1991,

- debt service on medium- and long-term debt would have been roughly $10 billion to $14 billion, including about $6 billion in interest payments;
- short-term bank credits would have been about $6 billion to $8 billion; and
- debt servicing to Paris Club creditors would have been about $5.7 billion.

On the basis of identified new financing of $17 billion, contractual debt service, and severe import compression, the report projects that the former Soviet Union will have a current account surplus in 1991. But it points to some major uncertainties, including a substantial withdrawal of short-term credits by commercial banks; a fall-off in official disbursements; difficulties in maintaining import compression; and incomplete remittances of foreign exchange to central or regional authorities. In addition, the report notes, liquid foreign exchange reserves are at an abnormally low level, and the level of gold reserves is uncertain.

The report indicates that Eastern Europe has benefited from growing official support in 1991: net disbursements to the region (excluding Yugoslavia) are projected to rise to about $8 billion (much of it from the IMF and the World Bank), from $800 million in 1990. Private financing, however, has been virtually absent.

A Diversion of Resources?

In considering whether official support for Eastern Europe could divert resources away from other developing countries, the report points to the importance of distinguishing between official development assistance (ODA) and other official flows because the two categories are subject to different constraints.

The category of "other official flows," which comprises multilateral lending, export credits, and bilateral, nonconcessional lending, is generally less constrained, according to the report—and thus "the danger of diversion is much less serious." Multilateral support has not been diverted from other countries because the institutions that provide it have drawn on spare lending capacity nor has support from export credit agencies been diverted because the constraints on these agencies are self-imposed, country-specific limits based on creditworthiness. And there is little evidence of diversion in the case of bilateral nonconcessional lending.

ODA flows are, however, "more susceptible to diversion," the report says, because they are constrained by national aid budgets. Unless these budgets are increased to cover grant financing and concessional loans (other than food aid) to Eastern Europe, other ODA recipients will lose out.

The *World Debt Tables 1991–92* comprise two volumes. Volume 1 contains analysis and commentary on recent developments in international lending to developing countries, together with summary debt data tables for various analytical groups of countries. Volume 2 contains tables showing the external debts of 114 countries that report public and publicly guaranteed debt to the World Bank.

Copies of both volumes may be obtained within the United States for $125.00 (or Volume 1 for $16.95) from World Bank Publications, P.O. Box 7247-8619, Philadelphia, PA 19170-8619. Phone: (908) 225-2165. Outside the United States, the *Tables* may be purchased from regular distributors of World Bank publications. Information on distributors may be obtained by writing to the Sales Unit, World Bank Publications, 1818 H Street, N.W. Washington, D.C. 20433, U.S.A. Telephone: (202) 473-1155.

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Economic Crisis in the Former Soviet Union

(continued from front page) Adding to the problem, he continued, is the rapid growth of money and credit. The external debt position is "very uncomfortable," and there has been a serious risk of default. "This is something the Soviet Union has never done," Odling-Smee pointed out. The way that this problem has come about is quite interesting, he added. The rapid growth in consumption led to a growing balance of payments deficit, which, between 1986 and 1989, was financed by accumulating short-term credits. Then as the political situation worsened and the economy became less stable, Western banks were not prepared to roll over those credits and started withdrawing funds, which, Odling-Smee pointed out, put quite a severe squeeze on the balance of payments. At the same time, falling oil production brought down export earnings; and the exchange rate of the ruble has been depreciating quite rapidly on the free market.

Odling-Smee went on to discuss the economic policies of the former Soviet Union, which, he said, are poised somewhere between a command and a market economy. However, he added, the strength of the command system does vary a bit from republic to republic. With the collapse of the central government, some republics are seeking to keep power over the economy in their own hands rather than let it revert to the market. So the breakdown in the Union central planning system is not synonomous with the growth of market forces.

In the U.S.S.R.'s last days, very few economic policy instruments remained under the control of bodies at the Union level, said Odling-Smee, citing three main areas: direct government intervention, fiscal policy, and monetary policy. The Union role in direct government intervention was undermined by what, in the former Soviet Union, was called "the battle of laws," which means that the republics passed their own laws, which often conflicted with Union laws, and nobody knew which laws held. But it does mean that the Union law lost a lot of credibility and was not necessarily obeyed or enforced. Moreover, Russia and the other republics deprived the Union of money, and thereby undermined the ability of the central government to intervene in the economy. Russia is now taking over the Union's property as well as its civil servants, which also undermines the center. So in the area of direct government intervention, the Union lost power rapidly.

As for fiscal policy, the Union has had virtually no power for the past year, according to Odling-Smee. The republics withheld revenue, and the Union was forced to cut expenditures rapidly. Only in the area of monetary policy did the central government still play some role—at least nominally—he pointed out. Monetary policy was still nominally in the hands of the state bank of the former Soviet Union, the Gosbank. As a result, said Odling-Smee, there were situations, as we recently saw, in which the Gosbank made a show of refusing to print money to finance the Union deficit until it was told to do so by the U.S.S.R. Supreme Soviet. "But it took just a bit of arm twisting by Russian President Yeltsin to get the Gosbank to do it indirectly through the central bank of the Russian Republic."

The sources of the present economic crisis in the former Soviet Union go back a long way to the nature of the planning system and its subsequent demise, according to Odling-Smee. The planning system was inflexible, so the economy was unable to adapt rapidly, if at all, to changing circumstances. The system also created the wrong incentives and was thus unable to increase efficiency and spur innovation. Moreover, output patterns in the economy reflected political choices. These were not popular choices, by and large, with their emphasis on investment and military expenditures and not on private consumption.

The sources of the crisis in the former U.S.S.R. go back a long way to the nature of the planning system.

Then, he continued, the planning system began to collapse under glasnost and perestroika, and the command system could no longer claim even the modest level of efficiency it had before—partly because there was less intimidation. In the face of this breakdown, managers became more entrepreneurial and, in many cases, more bewildered and demoralized. On top of this, the political changes of recent years brought demands for more consumer goods, which the economy simply could not handle. "Consequently," Odling-Smee concluded, "everything has been conspiring to create a worse situation."

Gerald R. Rosen
Editor, IMF Survey

IMF ACTIVITIES

Managing Director's Address . . .

Sound U.S. Economic Policies Vital to Help Make the Best of New Global Opportunities

Following are excerpts from informal remarks by M. Camdessus, Managing Director of the IMF, delivered to a Conference of Chairmen of the Federal Reserve Banks, in Washington, D.C., on December 4:

I would like this evening to inform you, first, where we stand regarding some of the main challenges facing the world economy, and, second, to discuss certain issues relating to U.S. policy. Of course, the two topics are closely linked. Because the United States is a major force in the global economy, it has an important leadership role to play. This role has not been diminished by the fact that responsibility for promoting sustained noninflationary economic growth, worldwide, and for fostering a greater degree of exchange rate stability is now more shared among the major industrial countries. The world can only hope to take full advantage of the new opportunities that have recently been created by political changes in so many places if the United States and the other major countries maintain their firm commitment to fostering conditions that are favorable to worldwide economic prosperity.

Camdessus: new opportunities stem from an unusual conjunction of major changes.

I just mentioned the new opportunities. This may need explanation to those whose attention is focused on important short-term preoccupations—for example, about whether and how strongly the industrial countries are emerging from the recession. But we shouldn't let these immediate concerns blind us to the fact that we now face a unique opportunity that is too important to miss. It stems from an unusual conjunction of major changes:

- the fundamental transformation in the U.S.S.R. and Eastern Europe as they embrace democracy and make the huge shift from central planning to a market economy;
- the better chances for peace and development, following the reduction of the East-West tensions;
- the better future for Southern Africa, with the dismantling of apartheid, and in the Middle East as it recovers from the recent conflict; and
- the marked improvement in economic policymaking and implementation in many developing countries . . . [where] there is now a widespread consensus in favor of sound economic policies.

These favorable developments hold out the possibility of a stronger economic performance worldwide. But there are serious risks also. We face a difficult period of transition. We need farsighted leadership here and throughout the world to face some major challenges. It is not a short list—indeed, I see at least seven:

- First, the economic and political revolutions under way in ***the U.S.S.R. and the Baltic states***. The IMF is supporting the reform process and helping these countries' transition to a market economy and their integration into the world trading and financial networks. The IMF and the Soviet Union now have an agreement on "Special Association." This enables us to work with the Union and the republics to help them design and implement their reforms, and to provide extensive technical assistance. Already we have several teams at work in Moscow and in some of the republics. We are gearing up as fast as possible to do this essential work because we are in a race against time.
- Second, but related, the transformations under way in ***Eastern and Central Europe***. These countries are introducing political and economic democracy quickly, in very difficult circumstances. They have to cope urgently with severe problems, which have been aggravated by the collapse of the CMEA [Council for Mutual Economic Assistance] trading system. They will only succeed if they are able to integrate more closely into the global economic system, and this will

only be possible if the rest of the world welcomes them and makes room for them. It is essential that they be given ready access to markets, particularly in the industrial countries, so that their switch to a market economy can succeed.

The IMF is helping these countries to design and implement their reforms . . . . [Its] financial assistance to these countries will amount in 1991 to about $4 billion in terms of disbursements, or about $5 billion in commitments. This is helping to "catalyze" over $20–$25 billion in total financial flows. This total includes substantial assistance from the World Bank, the Group of 24 under the leadership of the EEC [European Economic Community], the Paris Club, and private capital flows.

• Third, the ***Middle East*** war. This was a tragic reminder of the fragility of the political and economic equilibrium in that region. Its immediate impact on a number of countries was severe. Its adverse repercussions were widespread and included an aggravation of the existing balance of payments difficulties of many countries. What was very impressive was how swiftly and effectively the community of nations responded to this crisis. The IMF contributed by adapting our financing mechanisms, and we devised new means of coordination and action. This enabled us to provide early and effective assistance to many member countries, in the region and elsewhere, that were most seriously affected.

IMF assistance to Eastern and Central Europe is helping to catalyze over $20–25 billion in total financial flows.

Looking beyond the immediate consequences of this crisis, I am encouraged that some of the countries in the Middle East are now undertaking more determined reform efforts. Some other countries in the region are also implementing good programs.

• Fourth—and this is part of our unfinished agenda—we need to promote stronger economic performance in many of the ***developing countries***, and particularly in the poorest ones in Africa and Asia. The better policies being implemented by many developing countries in recent years are already bringing a stronger performance and have greatly improved their prospects. One should be careful about generalizing because the record is very diverse, but just to mention the example of Africa, it is encouraging that soon more than thirty African countries will be implementing economic programs with IMF support. These are programs that combine far-reaching structural reforms with firm macroeconomic policies.

• Fifth, the ***debt problem***. Only a few years ago the debt crisis posed a serious threat to the stability of the world economic and financial system. Fortunately, the cooperative strategy to deal with debt has produced good progress. We have seen a remarkable turnaround in some of the countries with the biggest debt burdens. They are overcoming their deep-seated problems through their own strong efforts and with the support of the international community. You are all familiar with the example of Mexico, which now is showing vigorous growth. In addition, Chile, Venezuela, and several others, including Bolivia to mention one of the poorest, are leaving the ranks of those with serious debt problems and joining those with tremendous opportunities. They are again benefiting from net spontaneous inflows of capital from abroad, including the repatriation of flight capital. Several of them have gained renewed, although still limited, access to world capital markets.

The debt strategy is producing worthwhile results, although we will have to persevere with it for some years to come. I do not underestimate the difficulties ahead, nor the risks. But we should not flinch from continuing with a strategy that is working reasonably well.

• Sixth, the so-called ***global savings shortage***—which I regard as possibly the most serious global economic problem for the next several years. It results in part from the first five challenges I mentioned, as each of them calls for increased investment and saving. On top of that, we will need an increase in investment in the industrial countries in the years ahead. Unfortunately, we have witnessed a decline in saving and investment ratios in the industrial countries over the past fifteen years. This has contributed to an increase in real interest rates worldwide.

We need action by many countries, but especially the industrial countries, to bridge the gap between projected savings and intended investment. If not, we will see the imbalance resolved by a further increase in global real interest rates. This would discourage investment, aggravate and prolong the debt problem, and undermine the growth strategies of the industrial and developing countries alike.

That bleak scenario is avoidable, provided all countries improve their savings performance, including through a cut in unproductive spending.

• That brings me to my seventh global challenge—which is for all countries to implement ***a bold economic strategy that incorporates both universal adjustment and adequate financing***. By universal adjustment, I mean that all countries will have to take the measures needed to strengthen their own economic performance by implementing better policies. This

applies particularly to the United States, Europe, and Japan, whose contribution to the growth of the world economy is fundamental. But we need the same basic three elements of a sound economic strategy everywhere:

• sound monetary and fiscal policies, to establish a stable and credible framework for sustainable growth over the medium term;

• structural and systemic reforms—to revitalize the market economy and make it work more efficiently. Important structural reforms are needed in the industrial countries to enhance labor mobility; to strengthen the financial structure of the banking sector; and to remove barriers to trade, investment, and competition. An early and successful conclusion to the Uruguay Round is an essential precondition for faster growth in all countries—including the United States; and

• an improved national saving and investment performance. The most important contribution to better national saving performance will have to come through an early and substantial reduction in fiscal deficits—not least in the United States.

Our calculations in the IMF suggest that the ex ante imbalance between projected global savings and investment plans can, in fact, be solved, provided all countries make their proper contribution by implementing better policies along the lines I have just outlined. One key element should be an attack on unproductive spending. I have stressed in particular two areas where substantial cuts are both desirable and very possible. One is excessive spending on industrial and agricultural subsidies by the industrial countries. A significant reduction of protectionist subsidies will release substantial budgetary resources for more productive uses, promote efficiency, and stimulate competition. The other is military spending. The recent announcements by the United States and other major countries that they will reduce their military spending in the several years ahead has opened up the prospect of an important reallocation of resources.

* * * *

Each of these seven global challenges carries great significance for the United States and the other major industrial countries. It is important to remember them when addressing the immediate problems of economic policy. Certainly we keep them in mind when the IMF considers the important issues of fiscal and monetary policy in the United States and the other major industrial countries.

Like all of you, I watch carefully the various indicators for the U.S. economy. There are signs of some slackening in the momentum of the recovery, and we understand that there is concern about whether the economy is on track. We would note that the statistics that have appeared recently are not inconsistent with a modest recovery, after the relatively shallow downturn, but perhaps at a slightly slower pace than we and many others had expected earlier this year. In any case, it is desirable to look beyond the short run. Speaking for the IMF—whose members have a keen interest in a healthy medium-term growth of the U.S. economy—it is highly desirable for policies of the United States to be firmly aligned on establishing sound macroeconomic conditions, so that the recovery will be long-lasting and not marred by a resurgence of inflation or other symptoms of macroeconomic imbalance, which could cause the recovery to be cut short.

"I would urge extreme caution in the face of pressures to attempt fiscal fine-tuning."

That is why the IMF welcomed the Budget Agreement of November last year. Like many of you, we have noted with concern the difficulties that have arisen in implementing that agreed strategy. Those difficulties, however, simply reinforce the importance of sticking firmly to a medium-term perspective, and not being deflected by short-term considerations. I would urge extreme caution in the face of pressures to attempt fiscal fine-tuning. We all know, from the earlier experiences of this country and others, that it is difficult to get the timing of fiscal initiatives right. All too frequently, such initiatives turn out to be procyclical. I would therefore suggest that it is desirable to keep a steady, medium-term course, particularly in the present situation of an already large fiscal deficit. This is all the more important since the Budget Agreement falls far short of achieving the kind of medium-term improvement in the fiscal position that is desirable. In our view, the goal of saving the social security cash flow surplus, which was laid out in the January 1990 budget, provides a useful benchmark for fiscal policy. We would hope that any reopening of the Agreement would lead to the adoption of measures that would move the economy closer to, rather than farther from, the objective of fiscal consolidation.

The continuing large budget deficits have obviously complicated the task of U.S. monetary policy. What are the most pressing issues? Well, the role of monetary policy is to reduce inflation and keep it at a level (probably near zero) that does not distort decisions. We in the IMF are concerned that inflation in the United States has been stuck for several years

in the range of 4 to 5 percent, following the impressive success in bringing inflation down from very high rates in the early 1980s. A continuation of inflation in this range does not seem consistent with achievement of the objective of maximum potential growth of the U.S. economy. Nor is it conducive to lasting stability of exchange markets, and it may have adverse effects on the international monetary system. Therefore, it is in the United States' interest, as well as that of the world economy, to keep as a priority the task of reducing U.S. inflation much further. I have repeatedly endorsed the Federal Reserve's goal of price stability, which Chairman Greenspan has indicated will mean, in practical terms, if I remember well, bringing inflation down to the range of ½ of 1 percent to 1½ percent. That will be difficult, I know. But it is both highly desirable and possible.

With this in mind, is the current stance of U.S. monetary policy consistent with steady progress toward price stability? That is a thorny topic, especially at a time when many of the statistical relationships that have helped guide policymakers appear to have broken down owing to systemic changes in the financial system. Over the past several years, the growth rates of the monetary aggregates—principally M2—have been reduced, and this may offer the prospect of an improvement in inflation performance. The economic slack that has emerged during the recession has contributed to a moderation of cost-push pressures—albeit at a recorded rate of inflation that is still too high for comfort. In the process, short-term interest rates have been reduced substantially over the last 12 months, and they are now probably not far from zero in real terms.

Another important indicator, when assessing monetary policy, is the level of long-term interest rates. These have remained quite stable, at relatively high levels, over the past several years. How should we interpret that? I would stress two points. One is that this stability reflects the skill with which the Federal Reserve handled monetary policy during the period of intense resource pressures in the late 1980s. It is a tribute to the Fed that it avoided an acceleration of inflation and a raising of inflationary expectations in this period. That happened because the Federal Reserve allowed short-term interest rates to rise in the face of strong demand pressures, and so succeeded in convincing the market that it was determined not to allow an acceleration in inflation—and this was reflected in long-term rates. The other point, however, is less comforting. The fact that long-term rates have stabilized where they have indicates that there is unfinished business. You still need to convince the markets that the Federal Reserve will succeed in bringing about permanently lower inflation. Therefore, it will be important that the Federal Reserve be prepared to move quickly to raise short-term rates again as the recovery begins to take hold to prevent an acceleration of inflation. Moreover, it will be necessary to pursue financial restraint over a significant period of time to put inflation on an unmistakable downward path.

* * * *

It is essential for the world that the United States prosper and continue to play effectively its important global roles. I am confident that you will accept that my perspective is that of an institution that shares important interests with your country: the responsibility to promote stability in the international system and growth in the world economy.

From the Executive Board . . .

Ecuador: Stand-By Credit. The IMF has approved a stand-by credit for the Government of Ecuador authorizing drawings of up to the equivalent of SDR 75 million (about $105 million) during the 12-month period ending December 1992 in support of the Government's economic and financial program. At the request of the Ecuadorean authorities, 25 percent of each of the five disbursements under the credit will be set aside to support debt-reduction operations under an eventual agreement between Ecuador and its commercial bank creditors.

Since mid-1988, the Ecuadorean authorities have implemented a number of measures designed to correct large economic imbalances, while undertaking structural reforms designed to launch Ecuador into a higher, sustainable economic growth path. Significant success was achieved in 1989 in lowering inflation, which had peaked at an annual rate of 100 percent the previous year. However, some difficulties were encountered in implementing the 1990 program, but a tightening in expenditure and credit policies and higher-than-programmed oil revenues in the latter part of 1990 helped to improve public sector revenues and narrow the current account deficit. During the first part of 1991, world oil export prices dropped, contributing to a deterioration in Ecuador's balance of payments. Since mid-1991, the authorities have adopted further expenditure and revenue measures to improve fiscal performance, while maintaining a tight credit stance and an exchange rate policy aimed at safeguarding Ecuador's competitiveness.

Broad progress has been made in the area of structural reforms, including comprehensive reform of the nonpetroleum tax system and a consolidation of indirect taxes, the elimination of a number of other

taxes, and trade liberalization. Other important structural measures include legislation to create a framework for the establishment of export processing zones; a new foreign investment code that allows for equal treatment of foreign and domestic companies; a legal framework for mining activities and foreign investment in this area; and labor legislation aimed at increasing flexibility in labor markets.

The 1991–92 economic program, which the IMF's stand-by credit supports, aims to strengthen Ecuador's external sector and to absorb the adverse effects of lower international oil prices, achieving a rate of economic growth of about 3 percent and halving the rate of inflation to about 25 percent a year by the end of 1992. Fiscal measures under the program include price adjustments for public services and strict expenditure controls. A tighter credit policy will include a reduction in central bank credit to the private sector and a shift of such credit to commercial banks. Exchange rate developments will be monitored closely with a view to maintaining an exchange rate policy consistent with achieving the external objectives of the program, in the context of fiscal, credit, and public wage policies aimed at reducing inflation. Structural measures will also include legislation to improve the budget process, a redefinition of the role of central banking, and measures to improve competition and efficiency in the country's financial system, as well as further trade liberalization measures to reinforce reforms already implemented.

Ecuador's high levels of debt-service obligations and external payments arrears have adversely affected the country's economic growth prospects and its orderly relations with external creditors. Under the 1991–92 economic program, Ecuador expects to redress this situation by resuming partial payments to its commercial bank creditors and by continuing its efforts to reach an agreement with them on a debt- and debt-service-reduction package. Ecuador is current on scheduled payments to its Paris Club creditors under an agreement reached in October 1989 and expects to negotiate a new agreement with the Paris Club for a comprehensive rescheduling of maturities falling due in 1991–92.

Ecuador is an original member of the IMF, and its quota is SDR 150.7 million (about $212 million). Its outstanding financial obligations to the IMF resulting from past operations and transactions currently total the equivalent of SDR 108.9 million (about $153 million).

Press Release No. 91/70, December 12

New Area Department. The Managing Director of the IMF, Mr. Michel Camdessus, has announced the creation of a new area department within the IMF to coordinate the work of the institution with respect to a number of countries that have applied for membership. The new department will focus on the republics of Estonia, Latvia, and Lithuania, and the U.S.S.R. and its republics.

In addition to carrying out the usual procedures leading to membership, IMF staff are currently engaged in providing extensive policy advice and technical assistance in the region in areas such as macroeconomic policies, central banking, fiscal policy and administration, and national accounts and statistics. In the framework of the "Special Association" agreement with the Soviet Union signed on October 5, 1991, IMF staff are working, both at the levels of the individual republics and the Union, to start economic consultations similar to those conducted by the IMF with its member countries on a regular basis, and to assist them in preparing economic programs for stabilization and transition to a market economy.

Press Release No. 91/71, December 12

Pakistan: Structural Adjustment Facility. The IMF has approved financing for Pakistan totaling SDR 231.7 million (about $325 million) available immediately. Of this total, SDR 109.3 million (about $153 million) is being provided in support of Pakistan's third annual arrangement under the IMF's three-year structural adjustment facility (SAF), while SDR 122.4 million (about $172 million) is available under the compensatory and contingency financing facility to cover the higher cost of oil imports in the fiscal year ended June 1991. Pakistan has previously drawn SDR 467.6 million (about $656 million) under a stand-by credit and the first two annual arrangements of the SAF-supported economic reform program.

Pakistan made significant progress in its medium-term adjustment effort under the first-year SAF and stand-by arrangements approved by the IMF in December 1988. However, both macroeconomic and structural reform policies weakened under the second-year SAF program, and inflation began to accelerate toward the end of the 1989/90 fiscal year. Early in 1990/91, the economy was adversely affected by the sharp rise in world oil prices associated with the Middle East crisis. The Government that took office in November 1990 embarked on a broadly based economic reform program aimed at achieving stronger economic growth, through privatization of nationalized commercial banks and a large number of public enterprises, deregulation of industry, elimination of investment sanctioning, liberalization of the exchange and trade system, and enhancement of Pakistan's already liberal foreign direct investment regime. It also adopted a new general sales tax and effected substantial adjustments in domestic energy and energy-related prices. Nevertheless, Pakistan's overall fiscal deficit widened markedly in 1990/91, partly because of the higher cost of oil imports, and, combined with the transitional problems associated with the implementation of financial sector reforms, this resulted in substantially higher domestic credit and liquidity growth, with inflation accelerating to nearly 13 percent in 1990/91.

The program for 1991/92, supported by the third annual SAF arrangement, aims at achieving real GDP growth of 6.2 percent, a reduction of inflation to 8 percent, and a narrowing of the external current account deficit. To these ends, the program envisages a reduction in the overall public sector deficit to 4.8 percent of GDP from 8.8 percent in 1990/91, and a substantial tightening of monetary policy. The Government's structural reforms include an ambitious privatization program, reduced budgetary reliance on taxes on interna-

tional trade; reduction and eventual elimination of nontariff barriers; greater emphasis on investment in economic infrastructure and the provision of basic services for private sector development; and increased outlays on education, health care, and other social sector activities.

To help protect vulnerable groups from the possible short-term adverse effects of the large fiscal adjustment, the Government intends to implement a safety net program to assist the needy, for which an extrabudgetary welfare fund has been established. This fund will be financed from earmarked taxes on bank advances and a one-time levy on large business and industrial establishments in Pakistan. Other sources of financing include grants from federal and provincial governments and local authorities and, possibly, from foreign donors.

Pakistan joined the IMF in July 1950. Its quota is SDR 546.3 million (about $766 million), and its outstanding financial obligations to the IMF currently total the equivalent of SDR 514.7 million (about $722 million).

Press Release No. 91/72, December 16.

IMF Financial Assistance Up Sharply

IMF financial assistance to its members more than doubled to SDR 7.1 billion in the first 11 months of 1991, compared with SDR 3.3 billion in the same period of 1990. During January-November 1991, a total of SDR 6.4 billion was disbursed under the General Resources Account (GRA), compared with SDR 2.9 billion in the same period of 1990. Repurchases (or repayments) in January-November 1991 totaled SDR 4.4 billion (SDR 5.4 billion in January-November 1990). Thus, net disbursements under the GRA were SDR 2.0 billion in the first 11 months of 1991, compared with net repayments of SDR 2.5 billion in the same period of the previous year.

Disbursements under the enhanced structural adjustment facility (ESAF) rose to SDR 633.0 million in January-November 1991, compared with SDR

Stand-By, Extended, Structural Adjustment Facility (SAF), and Enhanced Structural Adjustment Facility (ESAF) Arrangements as of November 30, 1991

(million SDRs)

Member	Date of Arrangement	Expiration Date	Amount Agreed	Undrawn Balance
Stand-by arrangements			**5,395.98**	**3,717.65**
Algeria	June 3, 1991	March 31, 1992	300.00	150.00
Argentina	July 29, 1991	June 30, 1992	780.00	633.75
Bulgaria	March 15, 1991	March 14, 1992	279.00	100.75
Congo	August 27, 1990	May 26, 1992	27.98	23.98
Costa Rica	April 8, 1991	April 7, 1992	33.64	12.00
Côte d'Ivoire	September 20, 1991	September 19, 1992	82.75	66.20
Czechoslovakia	January 7, 1991	March 6, 1992	619.50	99.56
Dominican Republic	August 28, 1991	March 27, 1993	39.24	39.24
Egypt	May 17, 1991	November 20, 1992	278.00	218.00
Gabon	September 30, 1991	March 23, 1993	28.00	24.00
Guyana	July 13, 1990	December 31, 1991	49.50	3.26
Honduras	July 27, 1990	February 17, 1992	30.50	6.95
India	October 31, 1991	June 30, 1993	1,656.00	1,571.00
Jamaica	June 28, 1991	June 30, 1992	43.65	32.75
Mongolia	October 4, 1991	October 3, 1992	22.50	11.25
Nicaragua	September 18, 1991	March 17, 1993	40.86	23.83
Nigeria	January 9, 1991	April 8, 1992	319.00	319.00
Papua New Guinea	July 31, 1991	September 30, 1992	26.36	26.36
Philippines	February 20, 1991	August 19, 1992	264.20	207.58
Romania	April 11, 1991	April 10, 1992	380.50	62.40
Uruguay	December 12, 1990	March 15, 1992	94.80	85.80
Extended arrangements			**9,665.80**	**4,464.50**
Hungary	February 20, 1991	February 19, 1994	1,114.00	715.98
Mexico	May 26, 1989	May 25, 1992	3,263.40	466.20
Poland	April 18, 1991	April 17, 1994	1,224.00	1,147.50
Tunisia	July 25, 1988	July 24, 1992	207.30	51.83
Venezuela	June 23, 1989	September 22, 1992	3,857.10	2,083.00
SAF arrangements			**496.44**	**172.53**
Benin	June 16, 1989	June 15, 1992	21.91	6.26
Burkina Faso	March 13, 1991	March 12,1994	22.11	15.80
Comoros	June 21, 1991	June 20, 1994	3.15	2.25
Equatorial Guinea	December 7, 1988	December 6, 1991	12.88	9.20
Lao P.D.R.	September 18, 1989	September 17, 1992	20.51	5.86
Pakistan	December 28, 1988	December 27, 1991	382.41	109.26
Rwanda	April 24, 1991	April 23, 1994	30.66	21.90
Sao Tome & Principe	June 2, 1989	June 1, 1992	2.80	2.00
ESAF arrangements			**2,546.46**	**923.21**
Bangladesh	August 10, 1990	August 9, 1993	345.00	115.00
Bolivia	July 27, 1988	December 31, 1991	136.05	45.35
Burundi	November 13, 1991	November 12, 1994	42.70	38.43
Ghana	November 9, 1988	March 5, 1992	388.55	—
Guinea	November 6, 1991	November 5, 1994	57.90	49.22
Guyana	July 13, 1990	July 12, 1993	81.52	26.57
Kenya	May 15, 1989	August 1, 1992	261.40	45.23
Lesotho	May 22, 1991	May 21, 1994	18.12	15.86
Madagascar	May 15, 1989	May 14, 1992	76.90	25.63
Malawi	July 15, 1988	September 29, 1992	66.96	5.58
Mauritania	May 24, 1989	May 23, 1992	50.85	33.90
Mozambique	June 1, 1990	May 31, 1993	85.40	45.75
Niger	December 12, 1988	December 11, 1991	47.18	—
Senegal	November 21, 1988	June 2, 1992	144.67	25.53
Sri Lanka	September 13, 1991	September 12, 1994	336.00	280.00
Tanzania	July 29, 1991	July 28, 1994	181.90	160.50
Togo	May 31, 1989	May 30, 1992	46.08	15.36
Uganda	April 17, 1989	April 16, 1992	179.28	19.92
TOTAL			**18,104.68**	**9,277.89**

Note: Figures may not add to totals because of rounding.

Data: IMF Treasurer's Department

339.2 million in the corresponding period of 1990. Disbursements under the structural adjustment facility (SAF) declined, however, to SDR 34.2 million, compared with SDR 96.5 million.

The IMF provided SDR 473.7 million in financial assistance to 11 countries in November. A total of SDR 358.4 million was disbursed under the GRA. Of this, SDR 325.4 million was disbursed under stand-by arrangements to Algeria (SDR 75.0 million), Czechoslovakia (SDR 99.5 million), Guyana (SDR 3.3 million), India (SDR 85.0 million), and Romania (SDR 62.4 million); and SDR 33.2 million was disbursed under an extended arrangement to Tunisia.

The IMF made loans totaling SDR 115.3 million under ESAF arrangements to Burundi (SDR 4.3 million), Ghana (SDR 48.0 million), Guinea (SDR 8.7 million), Guyana (SDR 8.9 million), Senegal (SDR 25.5 million), and Uganda (SDR 19.9 million).

Burundi and Guinea entered into new ESAF arrangements with the IMF in November. At the end of the month, a total of 52 arrangements were in effect between the IMF and its members, including 21 stand-by arrangements, 5 extended arrangements, 8 SAF, and 18 ESAF arrangements.

SDR Rates

Week Beginning	Rate of SDR Interest and Charges (percent)
December 23	6.83
December 30	6.92

The rate of SDR interest and charges is calculated weekly, by reference to a combined market interest rate, which is the weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (U.S. dollar, deutsche mark, Japanese yen, French franc, and pound sterling). The interest rates used are those that prevail each Friday. For the latest weekly rates, call (202) 623-7171.

Data: IMF Treasurer's Department

NATIONAL ECONOMIES

New IMF Study Examines Romania's Economic Reforms

Caught up in the tumultuous changes sweeping Eastern Europe, Romania undertook, in December 1989, a broad reform of its economy. While it essentially sought the same wide-ranging market reforms its neighbors pursued, the isolation it was shedding and the "homemade" nature of its adjustment program made Romania's efforts distinctive. Occasional Paper No. 89, *The Romanian Economic Reform Program*, by Dimitri G. Demekas and Mohsin S. Khan, details the program's design process and objectives.

Historical Perspective

Romania clung to a rigid planning model long after neighboring Eastern European countries had begun decentralizing their economic management. Consequently, by the late 1980s Romania possessed one of the most tightly controlled and centralized economies in Eastern Europe. As plan targets grew increasingly unrealistic, a vicious cycle ensued of tighter controls, heightened disorganization, and ever tighter controls. Economic stagnation deepened to a full-blown economic crisis, as Romania embarked on an extraordinary effort to repay, and in some cases prepay, its external debt.

By 1989, all but $500 million of Romania's $6.9 billion external debt had been repaid, but at great cost to the economy. Romania accumulated large current account surpluses chiefly through severe import compression and an at-all-costs promotion of convertible currency exports. The country imposed harsh restrictions on the use of household fuel to channel limited fuel imports to the industrial sector. Shortages of imported inputs and aging capital stock produced declines in GDP, including a 5.8 percent decrease in 1989. The most telling indication of Romania's growing economic dislocation, however, was its declining standard of living, which registered a fall in average caloric intake and in life expectancy for men.

Designing the Reform Program

Immediately after the overthrow of Nicolae Ceausescu's Government in December 1989, the provisional government faced acute economic disorganization exacerbated by a breakdown in law and order and widespread

worker absenteeism. Romania did not have the luxury of a "pre-reform" period—the months other countries had to publicly debate priorities and to educate their populations.

The Romanian authorities felt that they had to act quickly and would first have to address the country's dramatic decline in living standards. In early 1990, however, disorganization within the economic management system, obsolete capital equipment and production techniques, supply disruptions, and energy diverted from industry to household use resulted in a more than 20 percent reduction in output from 1989. This, coupled with the initial emphasis on improving living standards, brought a rapid deterioration in the macroeconomic situation.

The authorities therefore had to rethink the reform program's priorities and devise supply-side measures to contain the downward spiral of economic activity. New measures liberalized peasant markets, abolished the State Planning Committee, allowed agricultural cooperatives to distribute land, ended the state's monopoly on foreign trade, and partially liberalized foreign exchange regulations.

Fiscal revenues declined, however, but current expenditures increased, as outlays for subsidies, pensions, and transfers doubled. Monetary policy was expansionary, with banks instructed to extend credit to enterprises to meet higher labor costs. Real average wages increased by 3 percent, and, since this coincided with an output collapse and occurred before price liberalization, forced savings, or monetary overhang, increased.

Without previous experience with reform and with little recourse to expatriate expertise, the Romanian authorities developed, within three months of the change of regime, a comprehensive reform program that was remarkable, the authors note, for its public detailing of the Govern-

Currency Units per SDR

Currency	DECEMBER 3	4	5	6	9	10	11	12	13	16
Deutsche mark	2.2383	2.23089	2.22425	2.21924	2.20839	2.2069	2.21911	2.208	2.21589	2.21689
French franc	7.65368	7.62424	7.60543	7.5869	7.55078	7.56183	7.57302	7.54241	7.59349	7.57657
Japanese yen	179.458	179.484	179.591	179.656	179.787	180.164	180.596	180.892	180.177	180.301
Pound sterling	0.78303	0.781709	0.779963	0.777814	0.776395	0.775181	0.775869	0.773874	0.77347	0.769923
U.S. dollar	1.38792	1.39027	1.39434	1.39812	1.40349	1.40424	1.39672	1.40226	1.39998	1.40203
Argentine austral	3747.3	3770.6	3810.9	3848.4	3901.6	3909.	3834.5	3889.4	3866.8	3887.1
Australian dollar	1.77076	1.76902	1.78487	1.80217	1.80782	1.81614	1.80641	1.81687	1.81627	1.81188
Austrian schilling	15.7473	15.6989	15.6584	15.6114	15.5437	15.5239	15.6014	15.5342	15.5916	15.6088
Bahrain dinar	0.521858	0.522742	0.524272	0.525693	0.527712	0.527994	0.525167	0.52725	0.526392	0.527163
Bangladesh taka	53.0741	53.1639	53.3196	53.4641	53.894	53.9228	53.634	53.8468	53.7592	53.838
Belgian franc	46.1483	45.9797	45.8006	45.708	45.5292	45.3675	45.6727	45.5033	45.6743	45.6361
Brazilian cruzeiro	1180.43	1197.23	1215.45	1233.7	1253.46	1268.73	1276.39	1296.53	1309.19	1326.04
Canadian dollar	1.5739	1.5781	1.5855	1.5891	1.59465	1.5955	1.5931	1.60124	1.59878	1.60308
Colombian peso	965.923	968.476	972.176	975.804	980.394	...	977.453	982.269	981.708	983.903
Danish krone	8.7092	8.68293	8.64777	8.63619	8.59427	8.56308	8.62056	8.58954	8.62808	8.61898
Ecuadoran sucre	...	...	...	...	...	...	...	...	...	...
Finnish markka	6.06521	6.04211	6.0361	...	5.99431	6.04947	...	5.97783	5.99751	5.99788
Guatemalan quetzal	...	...	...	...	...	...	...	...	...	...
Indian rupee	35.99	35.9293	36.156	36.147	36.3454	36.4491	36.137	36.2144	36.2785	36.2218
Indonesian rupiah	2755.02	2761.08	2769.16	2778.67	2787.33	2790.22	2775.28	2787.69	2783.16	2788.64
Iranian rial	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3	92.3
Iraqi dinar	0.431445	0.432176	0.433441	0.434616	0.436285	0.436518	0.434181	0.435903	0.435194	0.435831
Irish pound	0.839891	...	0.834584	0.832363	0.829437	0.831258	0.832819	0.828514	0.834863	0.83167
Italian lira	1690.04	1685.58	1682.16	1679.43	1672.51	1673.69	1675.25	1667.86	1675.6	1673.74
Kuwaiti dinar	0.396668	0.396894	0.397624	...	0.399672	0.399885	0.399378	0.400429	...	0.400167
Libyan dinar	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929	0.383929
Malaysian ringgit	3.81747	3.82394	3.82886	3.83994	3.84556	3.84621	3.83886	3.85341	3.84575	3.85068
Maltese lira	0.443241	0.442846	0.44182	0.441465	...	0.439677	0.441734	0.440021	...	0.440447
Mexican peso	...	...	...	...	...	...	...	...	...	...
Nepalese rupee	59.2642	59.3645	59.5383	59.6997	59.929	59.961	59.6399	59.8765	59.7791	59.8667
Netherlands guilder	2.52254	2.51639	2.50661	2.49956	2.49021	2.49421	...	2.48775	2.50778	2.49814
Norwegian krone	8.81829	8.79346	8.76036	8.74636	8.70936	8.68003	8.7288	8.69822	8.72606	8.71334
Omani rial	0.533655	0.534559	0.536124	0.537577	0.539642	0.53983	0.537039	0.539169	0.538292	0.539081
Pakistan rupee	34.3952	34.4534	34.5823	34.676	34.8092	34.8278	34.6413	34.7787	34.7222	34.773
Portuguese escudo	199.09	198.055	197.186	197.321	196.73	195.667	...	196.046	197.154	196.814
Qatar riyal	5.05203	5.06058	5.0754	5.08916	5.1087	5.11143	5.08406	5.10423	5.09693	5.10339
Saudi Arabian riyal	5.19776	5.20656	5.2218	5.23596	5.25607	5.25886	5.23072	5.25146	5.24293	5.2506
Singapore dollar	2.30714	2.30924	2.31182	2.31557	2.31576	2.30997	2.31059	2.31709	2.31361	2.31657
South African rand	3.87644	3.87607	3.88396	3.88183	3.89972	3.889	3.87795	3.88491	3.88355	...
Spanish peseta	142.853	143.027	142.457	...	...	141.733	141.611	141.083	141.699	141.28
Sri Lanka rupee	58.9866	59.0865	59.2595	59.4201	59.6483	59.6802	...	59.6241	59.5131	59.6003
Swedish krona	8.20677	8.1848	8.15061	8.12587	8.09603	8.08666	8.12193	8.07351	8.1021	8.08901
Swiss franc	1.97987	1.97627	1.9716	1.96366	1.94875	1.94909	1.9596	1.94834	1.95437	1.95934
Trinidad and Tobago dollar	5.91341	5.92342	5.94076	5.95687	5.97974	5.98294	5.9509	5.9745	5.96479	5.97352
U.A.E. dirham	5.09505	5.10358	5.11862	5.1325	5.15221	5.15497	5.12736	5.1477	5.13933	5.14685
Venezuelan bolivar	...	84.7022	84.7082	84.9008	...	85.2725	84.6273	85.1172	85.1188	85.2645

Note: The value of the SDR in terms of the U.S. dollar is determined as the sum of the dollar values, based on market exchange rates, of specified quantities of the first five currencies shown above. The value of the SDR in terms of any currency other than the U.S. dollar is derived from that currency's exchange rate against the U.S. dollar and the U.S. dollar value of the SDR. Exceptions are the Iranian rial and the Libyan dinar, the values of which are officially expressed directly in terms of currency units per SDR.

Data: IMF Treasurer's Department

ment's goals and its "homemade" nature. The program clearly delineated the reform effort's goal: transformation to a market economy. It opted for a "gradual reform introduced at a rapid pace, [starting with] an accelerated introduction of the legal and economic mechanisms strictly necessary for the functioning of a market economy."

In retrospect, the authors note, the initial program failed to recognize that many targets could not be reached without addressing the country's significant price distortions and without seeking consistency between its social and macroeconomic objectives. The program was subsequently modified to give price liberalization a central role, to accelerate the pace of reform, and to better target social policy. The main objectives were to introduce market forces (notably, liberalizing prices the trade and exchange system, and interest rates and allowing these forces to guide economic decision making), transfer ownership to the private sector, and reduce the Government's role in the economy.

Legal reform constituted the critical first step in the reform process, and new laws were drafted for banking, land ownership, privatization of state enterprises, foreign investment, and free wage determination. By late 1991, prices had been liberalized and all quantitative restrictions on imports had been removed. Citizens now have the right to establish businesses and compete freely in the market. Collective farms have been broken up, and nearly 80 percent of the country's farmland is now privately owned. Approximately one half of state housing has been sold to the public, and the remainder is scheduled to be sold by 1992.

Lining up to buy coffee in Bucharest: prices were freed in 1991.

The authors caution, however, that while many aspects of the Romanian economy are strikingly different from 1989, the reform process is far from complete. State monopolies still dominate Romania's economy, particularly in industry and mining, and are likely to do so for some time. Private industry still represents a very small share of the economy, and, other than in agriculture, prices have yet to reflect supply and demand. The legal framework is in place, but the far more difficult process of altering individual behavior has just begun.

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